Yum China Holdings, Inc (9987 HK / YUMC US)

2Q26: Results Beat; PH's Store Opening Targets Raised For 2027-28

BUY (Maintained)	
Share Price	HK$365.80
Target Price	HK$513.70
Upside	40.4%
Previous TP	HK$494.80

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Highlights

- YUMC's 2Q26 revenue beat consensus by 2%, driven by in-line SSSG and rapid store expansion. Operating profit beat consensus by 3%, driven by a better margin expansion of 0.2ppt yoy vs the previous guidance of a stable level. Looking ahead to 3Q26, management expects positive SSSG, stable to slightly positive restaurant margin and flat operating margin.
- For KFC, management has further raised the year-end target for K Pro to around 800 (earlier this year it raised the target from 400 to 600). For PH, the newly introduced Burger Bar side-by-side module, which reached over 200 stores in 1H26, is expected to expand to 500-600 locations by end-26. Furthermore, management also has raised PH net new openings to over 800 per year during 2027-28, up from the original target of over 600.
- The PH brand acquisition is expected to add 2.8ppt to PH's restaurant margin, translating to 0.6ppt for YUMC overall, and to be accretive to diluted to diluted EPS by a mid-single-digit percentage in 2027 and 2028. Maintain BUY and raise target price by 4% to HK$513.70.

2Q26 Results

Year to 31 Dec (US$m)	2Q26	2Q25	yoy % chg	yoy (exl. fx) % chg	1H26	1H25	yoy % chg	yoy (exl. fx) % chg
Total revenue	3,138	2,787	12.6	6.0	6,409	5,768	11.1	5.2
Core operating profit	328	304	n.m.	7.9	751	703	n.m.	6.8
Core operating margin (%)	11.1	10.9	n.m.	0.2	12.4	12.2	n.m.	0.2
Net profit	244	215	13.5	6.0	553	507	9.1	3.0
Net margin (%)	7.8	7.7	0.1	n.m.	8.6	8.8	(0.2)	n.m.

Source: Yum China, UOB Kay Hian

Analysis

- **2Q26 SSSG in line and margin beat; rapid store expansion continued.** Yum China Holdings, Inc (YUMC) reported its 2Q26 results. Total system sales grew 6% yoy, with same-store sales growth (SSSG) improving sequentially to 1%, in line with market expectations. Total revenue was US$3.1b, up 6% yoy (excluding forex, same below), beating market consensus by 2%. Adjusted operating profit was US$348m, up 7% yoy and beating market consensus by 3%, driven by operating margin expansion of 0.2ppt yoy to 11.1%, better than the previous guidance of a stable level. Restaurant margin was 16.1%, flat yoy. Adjusted net income was US$244m, up 6% yoy. Diluted EPS increased 14% yoy to US$0.70.
- In 2Q26, YUMC opened 560 net new stores (41% were opened by franchisees), bringing the total store count to 19,297 (vs its target of 20,000 by 2026).

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	11,303	11,797	12,586	13,368	14,249
EBITDA	1,638	1,738	1,907	2,146	2,332
Operating profit	1,162	1,290	1,407	1,590	1,716
Net profit (rep./act.)	911	929	999	1,128	1,231
Net profit (adj.)	911	929	999	1,128	1,231
EPS (US$ cent)	233.6	250.4	269.4	304.1	331.7
PE (x)	20.0	18.6	17.3	15.3	14.1
P/B (x)	3.1	3.1	2.7	2.4	2.2
EV/EBITDA (x)	11.0	10.4	8.5	7.2	6.3
Dividend yield (%)	1.4	2.1	2.5	2.9	3.1
Net margin (%)	8.1	7.9	7.9	8.4	8.6
Net debt/(cash) to equity (%)	(8.1)	(6.8)	(17.3)	(26.6)	(35.1)
ROE (%)	15.0	16.7	17.5	17.6	17.1
Consensus net profit	-	-	1,022.4	1,118.4	1,216.3
UOBKH/Consensus (x)	-	-	0.98	1.01	1.01

Source: YUM China, UOB Kay Hian

Stock Data

GICS sector	Consumer Discretionary
Bloomberg ticker:	9987 HK
Shares issued (m):	343.4
Market cap (HK$m):	125,625.0
Market cap (US$m):	16,017.3
3-mth avg daily t'over (US$m):	40.0

Price Performance (%)

52-week high/low: HK$451.20 / HK$310.60

1mth	3mth	6mth	1yr	YTD
14.5	(4.0)	(8.6)	(0.4)	(0.8)

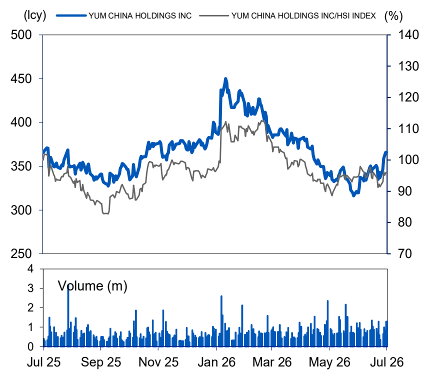
Major Shareholders

	%
Fred Hu	3.24
Joey Wat	0.33

Balance Sheet Metrics

FY26 NAV/Share (US$)	17.19
FY26 Net Cash/Share (US$)	3.19

Price Chart



Source: Bloomberg

Company Description

Yum China Holdings, Inc is the largest restaurant company in China in terms of system sales. Its growing restaurant network consists of flagship brands KFC and Pizza Hut, as well as emerging brands such as Lavazza, Huang Ji Huang, Little Sheep and Taco Bell.

- **Expects positive SSSG, stable to slightly positive restaurant margin and flat operating margin in 3Q26.** Since 3Q26, management noted that more players are willing to raise prices, reflecting a more stable consumer environment, and the competition among delivery platforms has become more rational. Looking ahead to 3Q26, the company targets to maintain positive SSSG. Restaurant margin is expected to be stable to slightly positive yoy, and operating margin to be roughly flat yoy, given that certain government subsidies recognised in 3Q25 (a positive margin impact of about 0.2ppt) have already been recognised in 2Q26.
- **KFC: Raises K Pro opening target.** In 2Q26, KFC's system sales grew 7% yoy (vs 5% in 1Q26), with SSS up 1%. Same-store transactions grew 4% but ticket average declined 3%, mainly due to a higher mix of smaller orders from K Coffee and K Pro. Operating profit increased 7% yoy, with operating margin at 14.2%, up 0.2ppt yoy. Restaurant margin was 17.1%, up 0.2ppt yoy, primarily due to streamlined operations and favourable commodity prices, partially offset by the impact of increased rider cost. KFC opened 335 net new stores in 2Q26, bringing the total store count to 13,789 as of end-1H26. For the new modules, K Coffee delivered around mid-single-digit sales uplift to its parent stores, while K Pro delivered around 20%. K Coffee reached over 3,300 locations, and is on track to reach 5,000 by end-27. K Pro reached over 450 locations, and management has further raised the year-end target to around 800 (earlier this year it raised the target from 400 to 600).
- **Pizza Hut: New side-by-side module Burger Bar scaling fast; raises PH net new openings in 2027-28.** In 2Q26, Pizza Hut's (PH) system sales increased 6% yoy (vs 4% in 1Q26), with SSS returning to positive at 1%. Same-store transactions grew 13% yoy, while being offset by an 11% decline in ASP, consistent with PH's transition to a mass-market strategy targeting a ticket average range of Rmb60-70. Operating profit increased 5% yoy, with operating margin at 8.3%, up 0.1ppt yoy. Restaurant margin was 12.9%, down 0.4ppt yoy on higher delivery costs and PH Burger Bar launch expenses. PH opened 174 net new stores, bringing the total store count to 4,549 as of end-1H26.

  The company launched the Burger Bar side-by-side new module at the start of this year, reaching over 200 stores in 1H26 and delivering a double-digit sales uplift to parent stores. Management targets 500-600 locations by end-26, or around 10% of PH's nearly 5,000-store portfolio. Furthermore, management also has raised PH net new openings to over 800 per year during 2027-28, up from the original target of over 600.
- **PH ownership acquisition: Accretive to diluted EPS by a mid-single digit in 2027 and 2028; US$1.2b bridge loan with refinancing consideration.** The PH brand acquisition is on track to close in August. This is expected to add 2.8ppt to PH's restaurant margin, translating to 0.6ppt for YUMC overall, and to be accretive to diluted EPS by a mid-single-digit percentage in 2027 and 2028. Management noted the deal will initially be funded via a bridge loan of US$1.2b at a 2% interest rate, to be refinanced later through longer-term takeout financing. Management noted all takeout options remain under consideration, including syndicated loans, bonds and CBs. However, management reassured investors that potential dilution will be meaningfully minimised (eg in the case of CB, a capped call option could be utilised).

Earnings Revision/Risk

- **We raise our 2026/27 earnings forecasts by 2%/3% respectively.** We raise our 2026/27 revenue forecasts by 1%/2% respectively, to reflect stronger-than-expected total system sales growth. We lower expenses to reflect the expected improvement in PH's restaurant margins. Thus, our 2026/27 earnings forecasts are raised by 2%/3% respectively.

Valuation/Recommendation

- **Maintain BUY and raise target price by 4% to HK$513.70.** We raise our DCF-based target price by 4% to HK$513.70. Our target price implies 23.8x 2026F PE and 20.8x 2027F PE. The stock currently trades at 17.3x 2026F PE and 15.3x 2027F PE.

Operational Performances

(%)	2Q26	1Q26	4Q25
Yum China			
System sales growth yoy	6	4	7
Same-store sales growth yoy	1	flat	3
Same-store transactions yoy	5	2	4
KFC			
System sales growth yoy	7	5	8
Same-store sales growth yoy	1	1	3
Same-store transactions yoy	4	1	3
Average ticket yoy	(3)	(1)	flat
Pizza Hut			
System sales growth yoy	6	4	6
Same-store sales growth yoy	1	(1)	1
Same-store transactions yoy	13	5	13
Average ticket yoy	(11)	(5)	(11)

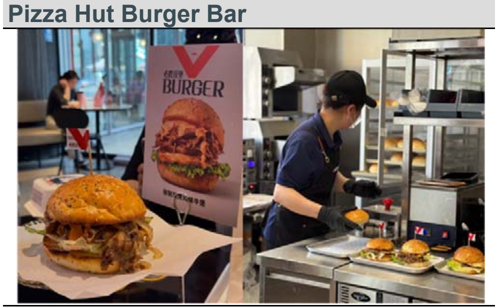
Source: Yum China, UOB Kay Hian

Total Store Count

	2Q26	1Q26	qoq chg
Yum China	19,297	18,737	560
KFC	13,789	13,454	335
Pizza Hut	4,549	4,375	174
Others	959	908	51

Source: Yum China, UOB Kay Hian

Pizza Hut Burger Bar



Source: Rednote, Yum China, UOB Kay Hian

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	11,797.0	12,585.8	13,367.6	14,248.9
EBITDA	1,738.0	1,907.4	2,146.3	2,331.8
Deprec. & amort.	448.0	500.9	556.7	616.0
EBIT	1,290.0	1,406.5	1,589.5	1,715.8
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	68.0	65.6	72.5	96.8
Pre-tax profit	1,358.0	1,472.1	1,662.0	1,812.6
Tax	(369.0)	(397.5)	(448.7)	(489.4)
Minorities	(75.0)	(75.2)	(84.9)	(92.6)
Net profit	929.0	999.4	1,128.4	1,230.6
Net profit (adj.)	929.0	999.4	1,128.4	1,230.6

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	2,543.0	2,687.1	2,811.9	2,918.7
Other LT assets	5,883.0	5,883.0	5,883.0	5,883.0
Cash/ST investment	506.0	2,372.6	3,182.3	4,098.5
Other current assets	1,851.0	1,886.6	1,922.0	1,961.8
Total assets	10,783.0	12,829.4	13,799.1	14,862.0
ST debt	30.0	0.0	0.0	0.0
Other current liabilities	2,216.0	2,358.2	2,499.2	2,658.1
LT debt	1,874.0	1,823.0	1,823.0	1,823.0
Other LT liabilities	564.0	1,815.0	1,815.0	1,815.0
Shareholders' equity	5,379.0	6,037.9	6,781.8	7,593.1
Minority interest	720.0	795.2	880.2	972.8
Total liabilities & equity	10,783.0	12,829.4	13,799.1	14,862.0

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	1,466.0	1,682.1	1,875.7	2,058.3
Pre-tax profit	1,358.0	1,472.1	1,662.0	1,812.6
Tax	(369.0)	(397.5)	(448.7)	(489.4)
Deprec. & amort.	448.0	500.9	556.7	616.0
Working capital changes	(511.0)	106.6	105.6	119.1
Non-cash items	401.0	0.0	0.0	0.0
Others	2.0	0.0	0.0	0.0
Investing	(5.0)	(644.9)	(681.6)	(722.8)
Capex (growth)	(626.0)	(644.9)	(681.6)	(722.8)
Others	2.0	0.0	0.0	0.0
Financing	(1,689.0)	829.5	(384.4)	(419.3)
Dividend payments	(428.0)	(415.7)	(469.4)	(511.9)
Issue of shares	0.0	1,200.0	0.0	0.0
Proceeds from borrowings	(100.0)	(30.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,161.0)	75.2	84.9	92.6
Net cash inflow (outflow)	(228.0)	1,866.6	809.6	916.2
Beginning cash & cash equivalent	723.0	506.0	2,372.6	3,182.3
Changes due to forex impact	11.0	0.0	0.0	0.0
Ending cash & cash equivalent	506.0	2,372.6	3,182.3	4,098.5

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	14.7	15.2	16.1	16.4
Pre-tax margin	11.5	11.7	12.4	12.7
Net margin	7.9	7.9	8.4	8.6
ROA	8.5	8.5	8.5	8.6
ROE	16.7	17.5	17.6	17.1
Growth				
Turnover	4.4	6.7	6.2	6.6
EBITDA	6.1	9.7	12.5	8.6
Pre-tax profit	2.0	8.4	12.9	9.1
Net profit	2.0	7.6	12.9	9.1
Net profit (adj.)	2.0	7.6	12.9	9.1
EPS	7.2	7.6	12.9	9.1
Leverage				
Debt to total capital	23.8	21.1	19.2	17.5
Debt to equity	35.4	30.2	26.9	24.0
Net debt/(cash) to equity	(6.8)	(17.3)	(26.6)	(35.1)